

Message Text

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C O N F I D E N T I A L MOSCOW 16074

E.O. 11652 GDS
TAGS: ETRD, EEWT, UR, US
SUBJECT: INDICATIONS OF CUT-BACKS IN SOVIET MACHINERY/EQUIPMENT
PURCHASES

USDOC FOR BEWT/TDAD AND USSR

REF: MOSCOW 15905

1. SUMMARY. COMMERCIAL OFFICE HAS RECENTLY NOTED REPORTS FROM VISITING U.S. BUSINESSMEN AND WESTERN EMBASSIES IN MOSCOW WHICH INDICATE THAT SOVIETS MAY BE MAKING GENERAL EFFORT TO REDUCE FOREIGN EQUIPMENT COMPONENT IN MAJOR PROJECTS UNDER NEGOTIATION WITH WESTERN COMPANIES. SOVIET APPROACH MAY SERIOUSLY COMPLICATE THESE PROJECTS FROM POINT OF VIEW OF POTENTIAL WESTERN PARTNERS. END SUMMARY.

2. GAS RECOVERY PLANT. HUDSON ENGINEERING DIVISION OF J. RAY MCDERMOTT AND UK ENGINEERING COMPANY MATTHEW HALL HAVE BEEN NEGOTIATING WITH SOVIETS ON MAJOR PLANT TO RECOVER ASSOCIATED GAS (LGP) NOW BEING FLARED. UNDER THIS PROPOSAL, PORTION OF GAS WOULD BE SHIPPED TO UK UNDER CONTRACT WITH GROUP HEADED BY GULF OIL. DURING LATEST ROUND OF NEGOTIATIONS, WHICH TOOK PLACE OCTOBER 27-31, HUDSON/HALL GROUP FOUND THAT NATURE OF PROJECT HAD CHANGED SUBSTANTIALLY, WITH SOVIETS PROPOSING TO PROVIDE MAJOR PART OF EQUIPMENT. IN ADDITION TO REDUCING THE INCENTIVE FOR HUDSON/HALL BY CUTTING DOWN TOTAL VALUE OF CONTRACT, SOVIET APPROACH WOULD MEAN THAT WESTERN PARTNERS WOULD HAVE TO GUARANTEE PERFORMANCE OF SOVIET EQUIPMENT, SOMETHING THEY WOULD NOT BE
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PREPARED TO DO.

3. KAMA TRUCK TIRE PLANT. UK COMMERCIAL OFFICER INFORMED COMATT NOVEMBER 5 THAT SOVIETS HAVE ADOPTED SAME APPROACH IN CASE OF KAMA TRUCK TIRE PLANT, FOR WHICH UK ENGINEERING FIRM SIMON-CARVES ACTUALLY HAS CONTRACT FOR RUBBER MIXING PLANT. ITALIAN FIRM FATA, A LICENSEE OF AMERICAN CHAIN AND CABLE, IS SLATED TO PROVIDE CONVEYING EQUIPMENT. SIMON-CARVES AND FATA HAVE NOW BEEN CONFRONTED WITH SOVIET DEMAND THAT A "SUBSTANTIAL" SHARE OF EQUIPMENT BE PRODUCED IN USSR BUT THAT SINON-CARVES/FATA CONTINUE TO GUARANTEE PERFORMANCE OF TOTAL PLANT.

4. PECHINEY ALUMINUM PROJECT. FRENCH EMBOFF HAS ADVISED COMMATT THAT ONE OF MAJOR PROBLEMS WHICH HAS ARISEN DURING ONGOING NEGOTIATIONS BETWEEN PECHINEY AND SOVIETS ON ALUMINUM PROJECT IS SOVIET REQUEST THAT LARGE PART OF EQUIPMENT BE PROCURED IN USSR, AND GUARANTEED BY PECHINEY. FRENCH WERE "NOT AMUSED" WHEN SOVIETS ACCOMPANIED THIS REQUEST WITH PROPOSAL THAT AMOUNT OF FRENCH CREDIT NOT RPT NOT BE REDUCED TO REFLECT LOWE LEVEL OF EQUIPMENT PURCHASES. PRESUMABLY, SOVITS WISHED TO HAVE THIS MONEY AVAILABLE FOR OTHER PURPOSES.

5. COMMENT. AS CASES CITED ABOVE INVOLVE THREE DIFFERENT FOREIGN TRADE ORGANIZATIONS (MASHINOIMPORT, TECHMASHIMPORT AND METALLURG-IMPORT, RESPECTIVELY), THEY WOULD APPEAR TO BE PART OF GENERAL EFFORT BY SOVIETS TO REDUCE THEIR HARD CURRENCY COMMITMENTS. FRENCH REPORT THAT SOVIETS TACITLY ACKNOWLEDGED THAT THIS EFFORT WAS RESULT OF EXPENDITURES FOR GRAIN.
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